



Energy Trust of Oregon, Inc.

Management Review of Cost Allocation Practices

FY 2023

October 16, 2024

Prepared by:

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Executive Summary

The Oregon Public Utility Commission (OPUC) grant agreement requires Energy Trust of Oregon, Inc. (Energy Trust) to conduct an independent management review and evaluation at least every five years. Part of this management review includes a requirement to prepare “*an analysis of cost allocations between administration, management, and programs and offer suggestions for appropriate changes.*”

ML Weekes & Company, PC (ML Weekes) is pleased to provide Energy Trust with a review and assessment of its cost allocation practices and methodologies employed to evaluate and potentially amend its practices for cost allocations among its final cost objectives including investor-owned utilities, private contracts, federal awards, and other benefitting users. The overall objective of our engagement was to perform an analysis and other procedures to identify alternative, compliant and consistent cost allocation practices to potentially enhance and streamline the overall allocation methodologies and practices. Our work scope included the following tasks.

Task 1 – Data request and general understanding of the organization and current cost allocation practices.

The purpose of this task was to gain an understanding of the current business environment and current cost accounting practices, including the composition of indirect and other allocated cost pool(s) and allocation base(s). We have met with Energy Trust management to understand the overall organizational structure, accounting system and available data, identified issues, perceived risks, and the organization’s strategic plans and expectations under the current and future state of cost allocation practices.

As part of Task 1, we provided the organization with a detailed information request list and gathered and reviewed relevant data and documentation.

Task 2 – Cost allocation analysis.

During this task we (1) analyzed Energy Trust’s current business operations and cost allocation practices, and, where necessary (2) prepared an analysis of alternative business structures and cost allocation methodologies considering the resultant impact on current and prospective recovery under final cost objectives.

Based on our conversations and our understanding of Energy Trust’s needs, we have performed the following services:

- Gained an understanding of Energy Trust’s current operations and cost allocation practices.
- Reviewed and understood the types of costs included in each of the eight allocated cost pools and the users of each distinct pool along with the current allocation statistics used to allocate each cost pool to those users that benefit from each pool.
- Understood any systems and data limitations and future changes in accounting or other systems which could impact any recommendations for the future.

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- Evaluated current and alternative cost allocation practices, pricing (budgeting) and billing mechanisms to support consistent, appropriate allocation methodologies and recovery of direct and indirect costs in the context of Energy Trust’s current and anticipated future awards, operating structure, and business systems.
 - Determined the factors and other information required to estimate costs on future awards and other future objectives.
 - Addressed any other matters requested by management.

Task 3 – Present high-level observations and recommendations.

Upon completion of Tasks 1 and 2, we have presented the results of our observations and recommendations to Energy Trust in this report. Where there are opportunities to make changes that enhance cost allocations or optimize accounting, we have advised the Company on how to develop and implement the proposed required enhancements.

Recommendations Summary

In summary, our recommendations are as follows. Please see the Recommendation Section of this report for additional detail.

1. For purposes of efficiency, while maintaining an equitable distribution of costs, we recommend that Energy Trust consider combining the IT allocations for Development and Data and Reporting into a single allocation.
2. We recommend that Energy Trust create a process to monitor budgets versus actuals for significant variances for those allocations that are based on budgeted hours.
3. We recommend that Energy Trust create a single fixed rate for non-PPC projects to allocate P&E and CSS program support costs. Variances are carried forward in setting future fiscal year rates.

Cost Allocation Analysis

Cost Allocations

Our analysis was designed to evaluate whether Energy Trust’s shared costs, administrative and program support costs, are allocated appropriately amongst the Energy Trust’s primary programs administered with public-purpose funding provided to the Energy Trust under its grant agreement with the OPUC.

On an annual basis, the OPUC establishes quantifiable performance measures to clearly define its expectation of Energy Trust’s performance, one of which is program delivery efficiency. This measure provides the maximum threshold as a percentage of which administrative costs can be to the total amount of annual expenditures.

Administrative costs adhere to Generally Accepted Accounting Principles (GAAP) for nonprofit organizations. Costs are recorded within Energy Trust’s general ledger within a set of unique cost centers (“project codes”). Administrative costs are comprised of three categories, each of which receive an allocation of indirect costs:

- **General Communications and Outreach** – Expenditures of a general nature, conveying the nonprofit mission of the organization and general public awareness.
- **Management and General** – Expenditures pertaining to governance/board activities, interest/financing costs, accounting, payroll, human resources, general legal support, and other general organizational management costs.
- **Program Support Costs** – While these costs are not required as a performance metric to be reported under the current OPUC agreement, nor measured in accordance with GAAP, the activities are part of the allocation processes utilized by Energy Trust. For informational purposes we have included our analysis of these costs within our report. Program Support functions include expenses incurred directly by the programs, as well as the allocation of shared and indirect costs incurred in the following categories (from Statement of Functional Expenses):
 - Travel, meetings, trainings, and conferences
 - Dues, licenses, and fees
 - Software and hardware
 - Depreciation and amortization
 - Office rent and equipment
 - Materials, postage, and telephone

Energy Trust defines “program services” as services directly in support of programs which are managed centrally and allocated to programs. This includes the following services:

- Customer Service Management
- Trade Ally Network Development
- Community Services
- Innovation & Development
- Planning & Evaluation

Indirect costs incurred in operating project codes allocated to shared administrative costs include occupancy related expenses and information technology systems, infrastructure and support.

Current Cost Allocation Methodology Overview

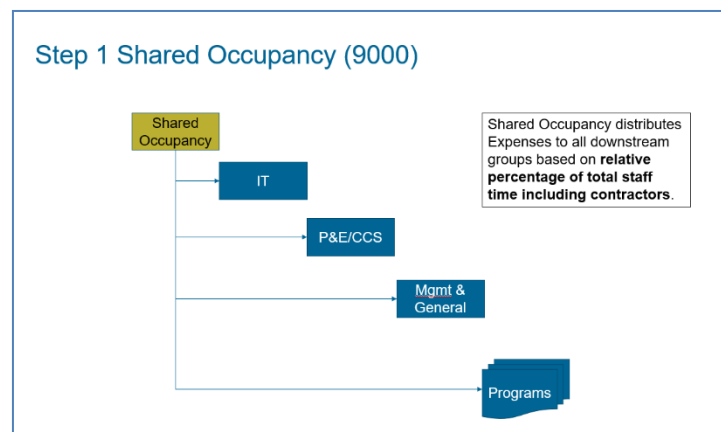
Energy Trust's cost allocation is currently comprised of a six-step tiered allocation:

1. Shared Occupancy
2. Information Technology
3. Planning & Evaluation (P&E) / Customer Services (CSS)
4. Management & General (M&G)
5. Programs – Utility Allocation
6. Management & General – Utility Allocation

Shared Occupancy

Shared occupancy expenses (project code 9000) are allocated to all benefiting functional groupings based on the relative percentage of total staff time, including contractors within each cost center (program). These expenses include depreciation and amortization; dues, licenses, and fees; materials, postage, and telephone; office rent and equipment; and travel, meetings, trainings, and conferences.

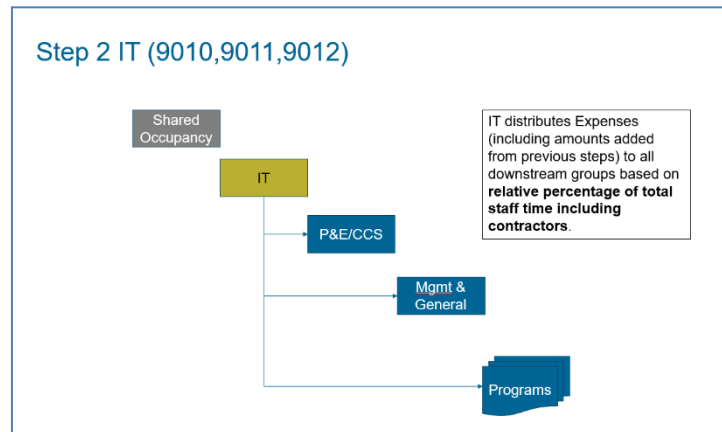
Step 1:



Information Technology

Information Technology (IT) expenses (project codes 9010, 9011, and 9012) are then distributed to benefiting functional groupings based on relative percentage of total staff time, including contractors within each cost center (program). This includes the shared occupancy costs allocated in Step 1 above. IT expenses are comprised of three components, including infrastructure, business systems, and reporting.

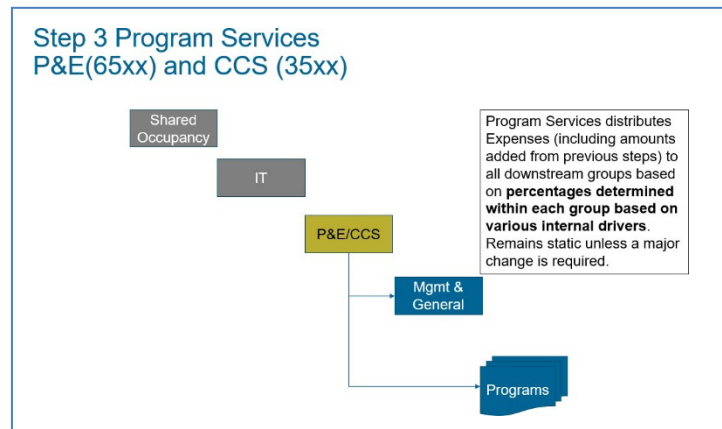
Step 2:



Planning & Evaluation (P&E) / Customer Services (CSS)

Planning & Evaluation (P&E) and Customer Services (CSS) are the program service expenses (project codes beginning with 65 and 35, respectively) that are further distributed to all benefitting functional groupings based on percentages determined within each group based on established internal drivers. This includes the shared occupancy and IT costs that were allocated from the previous steps.

Step 3:

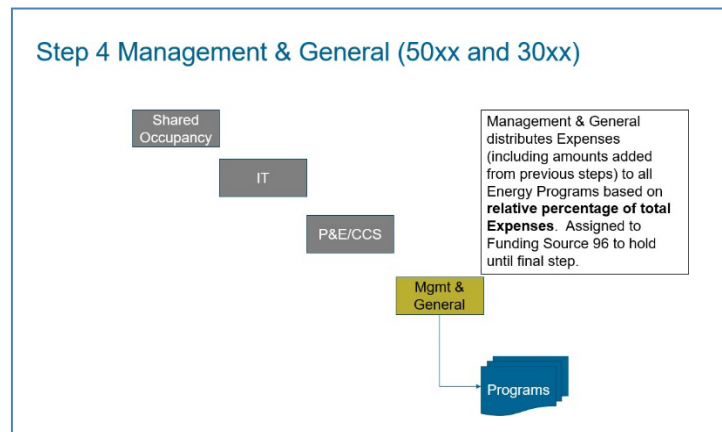


Management & General

Management and General (M&G) expenses (project codes beginning with 50 and 30) are distributed to all energy programs based on a relative percentage of total expenses. M&G expenses are comprised of marketing and communications; outreach and policy; governance; board of directors; legal; human resources; finance/compliance; office management; diversity, equity and inclusion (DEI); project management organization (PMO), and; organizational development.

This includes the shared occupancy, IT, and program support services' costs that were allocated from the previous steps. These M&G expenses are initially assigned to funding source code 96 and are later allocated in step 6 below.

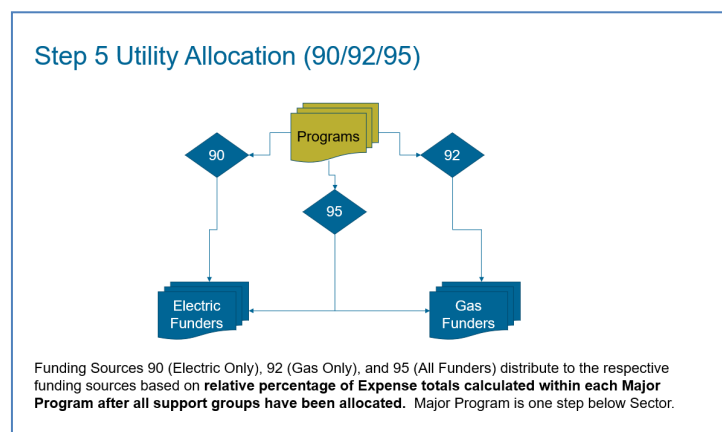
Step 4:



Programs – Utility Allocation

Programs are segregated by funding source codes based on whether the programs pertain to electric only (90), gas only (92), or all funders/utilities (95). These funding sources are distributed to the funding sources based on the relative percentage of expense totals calculated within each major program after all support groups have been allocated.

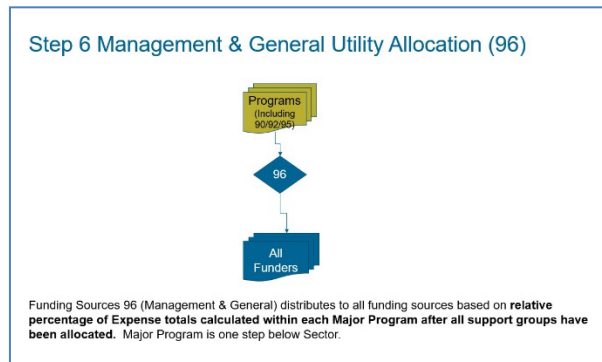
Step 5:



Management & General – Utility Allocation

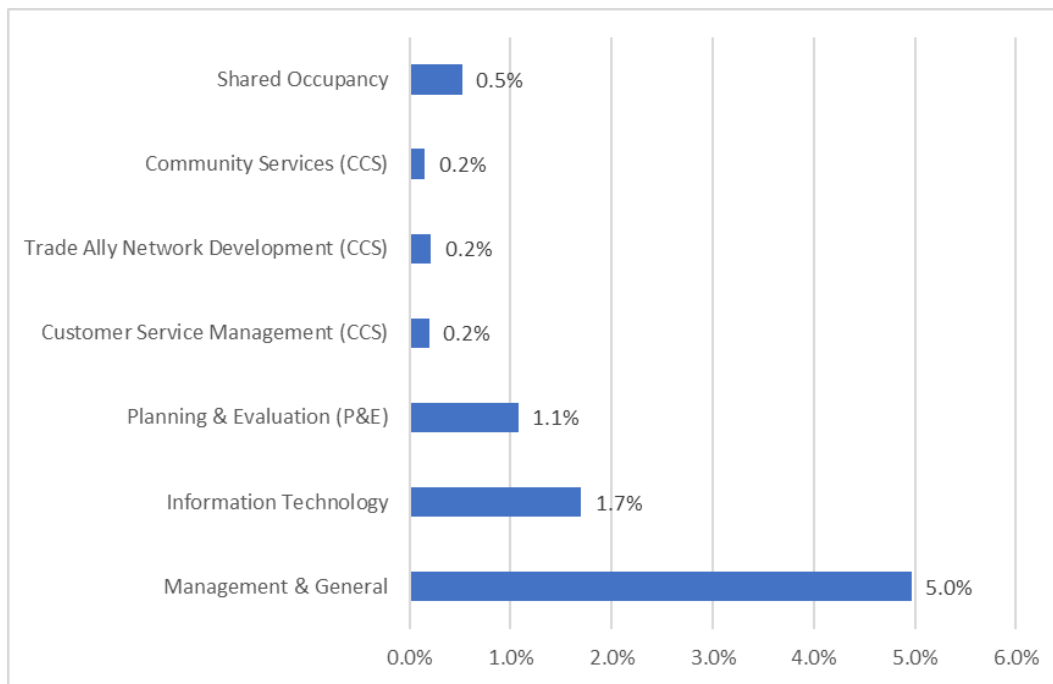
As indicated in step 4 above, all M&G cost centers are initially recorded to fund source code 96 before being allocated in this last step. M&G is distributed to all funding sources based on relative percentage of expense totals calculated within each major program after all support groups have been allocated.

Step 6:



Per the 2023 Statement of Functional Expenses, the allocated costs as a percentage of total expenditures were 8.8%. The chart below depicts the proportion of each allocated cost category as compared to the total expenditures.

Allocated Costs by Source as a Percent of Total 2023 Expenditures



The following table provides the current project codes utilized by Energy Trust to record costs within its general ledger. Project codes are differentiated by cost objective type, including those that are allocated and those that are defined programs. Further delineation is provided that groups the project codes by functional categories.

Project Code Summary

Project Code / Cost Center	Cost Objective Type	Grouping
(9000) Shared Occupancy	Allocated	Shared Occupancy
(9010) IT Infrastructure	Allocated	IT
(9011) IT Development	Allocated	IT
(9012) IT Data and Reporting	Allocated	IT
(3500) Customer Svc Mgmt	Allocated	CSS
(3550) Trade Ally Network Dev	Allocated	CSS
(3600) Community Services	Allocated	CSS
(6100) Innovation and Development (new for FY 2024)	Allocated	P&E
(6500) Planning & Evaluation	Allocated	P&E
(3011) Marketing and Communications	Allocated	Management and General
(3012) Outreach and Policy	Allocated	Management and General
(5909) Alt fund development	Allocated	Management and General
(5010) Executive	Allocated	Management and General
(5015) Board of Directors	Allocated	Management and General
(5020) Legal	Allocated	Management and General
(5025) Human Resources	Allocated	Management and General
(5030) Finance	Allocated	Management and General
(5035) Office Management	Allocated	Management and General
(5045) Diversity Equity and Inclusion	Allocated	Management and General
(5055) Project Management Operations	Allocated	Management and General
(5065) Organization Development	Allocated	Management and General
(7001) Community Solar	Program	non-OPUC/PPC Grant
(7002) PGE Smart Battery	Program	non-OPUC/PPC Grant
(7006) SALMON Program	Program	non-OPUC/PPC Grant
(7008) PGE Inverter	Program	non-OPUC/PPC Grant
(7009) ODOE Cooling	Program	non-OPUC/PPC Grant
(7010) FlexFeeder	Program	non-OPUC/PPC Grant
(1100) NEEA Commercial	Program	OPUC/PPC
(1130) New Buildings	Program	OPUC/PPC
(1170) Existing Buildings	Program	OPUC/PPC
(1400) Production Efficiency	Program	OPUC/PPC
(1500) Existing Single Family	Program	OPUC/PPC
(1575) NEEA Residential	Program	OPUC/PPC
(4085) General Solar	Program	OPUC/PPC
(4300) Other Renewables General	Program	OPUC/PPC
(2170) Existing Buildings - WA	Program	OPUC/PPC
(2500) Existing Homes - WA	Program	OPUC/PPC
(2560) New Homes - WA	Program	OPUC/PPC

Assessment of Cost Allocation Methodology

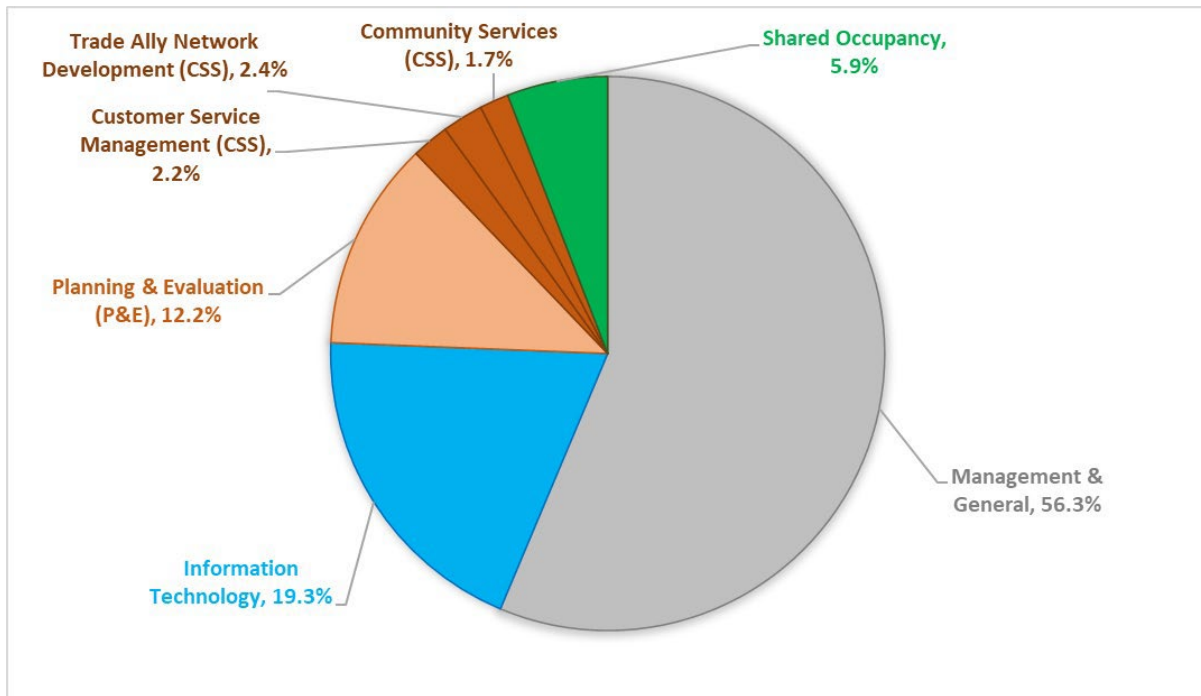
For financial reporting and grant and project accounting, non-profits typically utilize allocation techniques based on a variety of statistics that allow for the distribution of certain general operating expenses and program support services among benefiting functions and funding sources such as grants and other projects. The techniques utilized by Energy Trust and described herein serve the purpose of allocating costs to the public purpose charge (PPC) funded programs as well as additional non-PPC funded projects and assistance awards.

In our experience there are numerous options available and employed by various entities to allocate shared costs. While certain allocation techniques might result in a more accurate measurement and assignment of costs, the additional precision compared to other methods is often not commensurate with the effort required to collect and maintain accurate allocation statistics and perform often complex allocations. A balance must be sought between the benefit of overly complex allocations and the resources and associated cost to perform these allocations, particularly where the allocated costs represent a minor percentage of the total incurred cost for each function or program receiving an allocation. For purposes of efficiency there are often simple techniques that can be efficiently implemented and maintained. Overall, based on our experience, we found the allocation methodologies, including the composition of the cost pools and bases to be reasonable and generally result in an equitable distribution of shared costs to cost objectives.

Utilizing a “step-down” approach where intermediate cost pools (e.g., Shared Occupancy, IT) are liquidated to both benefitting shared and program cost objectives and then included in the base for the allocation of M&G is common practice used widely across many industries and organization types. This approach provides a more refined and equitable result compared with including the costs in a single indirect cost pool and allocating over a total or modified total direct cost base. Utilizing relevant statistics (e.g., number of calls to customer support services) or estimated actual usage for program support functions is also common industry practice and when appropriately developed, monitored and applied, will result in an equitable distribution of costs to benefitting programs. While timekeeping could provide more refined allocations, the nature and overall relative cost of the services, coupled with the additional administrative burden on the organization tend to outweigh any potential improvement in accuracy. Finally, the allocation of M&G and the distribution of final costs to major utility groupings on the basis of total cost is a common allocation methodology that results in an equitable distribution to final cost objectives (programs).

The following chart depicts the relative percentage of each allocated cost grouping to the total allocation using general ledger data supporting Energy Trust’s FY 2023 financial statements.

Percentage of Shared Cost by Expense Grouping to Total Shared Costs 2023



We have provided comments below summarizing our overall assessment of the allocation methodologies for each allocated operating expense or function.

1. Shared Occupancy Costs

The allocation of occupancy and related expenses using the percentage of monthly incurred hours (including contractor hours) for all non-occupancy project codes results in an equitable distribution of costs. While it is more common to use square footage, which might have a better correlation between the pooled expenses and benefitting functions, given the type of organization and nature of the services provided by Energy Trust, using hours is considered appropriate. Unlike a manufacturing or research entity, Energy Trust provides services, and the usage of space is primarily driven by the needs of personnel. Contracted costs and pass-through expenses, including customer incentives, could result in a significant distortion in the allocation if a cost input base were to be used.

2. Information Technology

Allocations for the three project codes comprising IT are initially based on budgeted use. Specifically, the total budgeted staff hours (excluding contracted hours) for each benefitting indirect or direct project are added to the P&E/CSS allocated hours to determine the base percentage distribution. Once this step is complete, each IT functional allocation is determined through a functional-based weighting as follows. Budgeted amounts are replaced with the hours incurred for purposes of determining final allocations by project.¹

¹ Beginning in FY 2024 Energy Trust modified its allocation practices to utilize labor plus allocated fringe benefits to distribute IT costs to benefitting cost centers.

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- Infrastructure and Business Systems: Allocated across all programs using the ratio of total hours, including P&E/CSS allocation.
 - IT Development: Allocated across all programs using a weighting of 10% for indirect supporting project codes and 90% for programs. The percentage is based on estimated usage.
 - Data and Reporting: Allocated across all programs using a weighting of 5% for the management component of indirect supporting project codes, 20% for Communications and Outreach and 75% for programs. The percentage is based on estimated usage.

The use of budgets to establish allocations is common and in fact, appropriate for interim allocation purposes. When budgeted rates are used for final allocations, there is typically a process to monitor any variances which, if material in amount would be either (1) recorded as an adjustment in setting future period rates, or (2) used to adjust current year allocations. It is our understanding that for OPUC and other funding sources, the incurred hours and proportions among programs are generally stable and any differences between budgeted and actual hours would not materially change the allocation. As a result, we do not recommend any change in the overall allocation methodology used to allocate IT costs.

3. P&E/CSS

Planning & Evaluation (P&E)

- Innovation and Development Services (new in FY 2024): Assists staff to strengthen their skills with innovation and pursues, secures, and integrates new sources of funding. Allocations are determined by the planned support needs of the organization and areas of impact expected from known new funding opportunities.
- Planning and Evaluation: Assesses the effectiveness of efficiency and renewable energy program implementation and estimates savings and generation among a number of other technical responsibilities. Allocations are determined by the planned support needs of the organization.

Estimated usage based on budgeted programmatic work scope as the primary driver in allocated P&E is consistent with industry standard practices. The use of timekeeping could be a more accurate means of determining support effort for each project supported by these activities. However, since there are numerous supported projects, the administrative burden and overall difficulty to track time at the project level is likely to be significant. As a result, we do not recommend any change to the current practice, including the continued use of estimated actual support time, evaluated annually.

Customer Services (CSS)

- CSS Customer Service Team: Oversees the call center and general customer service functions. The primary driver for cost allocation is statistics of call volumes supporting specific programs. The use of call volume has a direct correlation to the costs incurred to support customer service by project. We recommend the continued use of the current methodology to allocate the Customer Service Team.
- Trade Ally Network Dev Team: Supports the expansion and management of a network of electricians and other construction companies Energy Trust partners with across its territory. Allocation percentages are determined internal to the department and are based on expected support needs of the various sectors. One alternative to this method would be to utilize budgeted or actual dollar value of the external activities by project code. For purposes of this review, we did not evaluate any potential cost shift that would result from this method. However, based on our understanding of the activities, certain project-based complexities and support needs causes the level of required support to vary significantly and therefore, using estimated support appears reasonable. A second method would be timekeeping by project code which would have the same limitations noted for P&E.
- Community Services: Focuses on maintaining and developing relationships with community partners throughout Energy Trust's territory. Allocation percentages are determined internal to the department and are based on expected support needs of the various sectors. The use of timekeeping could be a more accurate means of determining support effort for each project supported by these activities. However, as a result of the limitations noted for P&E, this methodology does not appear to be practical.

Overall, based on our evaluation, we do not recommend any changes in the current methodology used to allocate CSS costs. During our procedures it was noted that percentages used to allocate P&E and CSS for each project are static for each year. While the PPC projects are relatively stable, the non-PPC projects and grants tend to have periods of performance that are often not tied to the fiscal year. In addition, new projects are not considered when project-based allocations are established, and therefore do not receive an allocation. However, non-PPC grant activity only includes approximately 2% of program expenses and therefore, we do not believe any impact resulting from the current process materially impacts the distribution of Program Services.

4. M&G

The allocation for all administrative costs is based on accumulated actual costs and is allocated using an organization-wide rate to all programmatic project codes by the total incurred cost of each project, including incentive costs. The use of total costs to allocate M&G is widely used across numerous industries as the total cost input includes all operating costs of the organization as has a beneficial and causal relationship to the functions included in the allocation pool. An alternative is the use of a modified base wherein certain costs are considered distortive and are excluded from the base because

these costs would cause certain projects to receive a disproportionate share of M&G. One potential example is incentives which comprised 58% of program costs in FY 2023. Energy Trust believes the delivery of customer incentives benefits from M&G functions. Moreover, the incentives are generally a component of all significant projects and therefore, any potentially distortive impact is limited. As a result, we do not recommend any changes to the continued use of total cost input.

5. **Programs Utility Allocation** – Our scope of work did not include evaluation of Step 5 as it is simply the distribution of total costs including allocations to Major Program Groupings.
6. **M&G Allocation Utility Allocation** – Our scope of work did not include evaluation of Step 6 as it is simply the distribution of G&A costs to program sources.

Recommendations

The following are recommendations for Energy Trust’s consideration:

4. We evaluated the weighting factors used to allocate IT Development (9011) and IT Data and Reporting (9012). Using the FY 2024 budget, we observed that the distribution of hours among allocated and program project codes after weighting was 93.0% of 9011 costs and 91.4% of 9012. The difference is not considered material to the overall allocation of IT. For purposes of efficiency, while maintaining an equitable distribution of costs, we recommend that Energy Trust consider combining the IT allocations for Development and Data and Reporting into a single allocation using one set of weighting factors.
5. We recommend that Energy Trust create a process to monitor budgets versus actuals for significant variances (e.g., plus or minus 5%) for those allocations that are based on budgeted hours. To the extent significant variances are identified, the organization should consider developing a process for revising allocations in current or future periods. Significant variances should be defined to determine if current or future allocations need to be revised.
6. As noted in our Assessment, allocations of Program Support costs to non-PPC projects and grants could be impacted by static allocation percentages. We recommend that Energy Trust create a single rate for non-PPC projects to allocate P&E and CSS program support costs. The rate would be based on pooled hours expected to support all non-PPC programs and would be applied to all active awards throughout the year. The rate would be fixed for each year. Any variances (under or over allocation) would be carried forward to the next fiscal year and used to set new fixed rates. This would eliminate the need to make adjustments to incurred costs or billings in the current period.